THE NEWEST WRINKLE IN BONDS: POISON PUTS

STEPHEN CANNELL: THE GENIUS BEHIND TV'S WISEGUYS

DANIEL ORTEGA'S NEW FRIENDS

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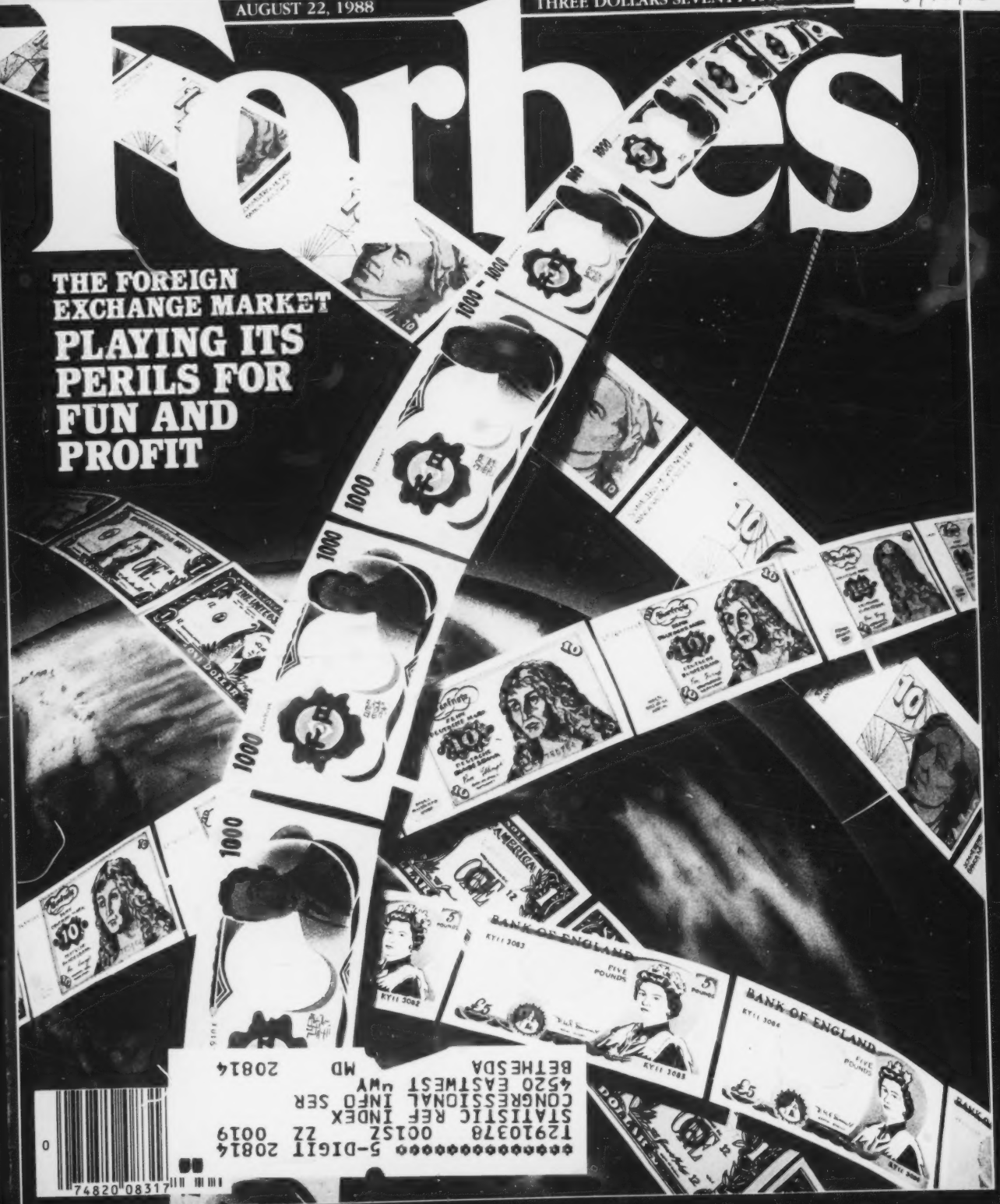
THE FOREIGN EXCHANGE MARKET

PLAYING ITS PERILS FOR FUN AND PROFIT



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THE ANNUAL MUTUAL FUND SURVEY APPEARS IN OUR NEXT ISSUE, SEPTEMBER 5.

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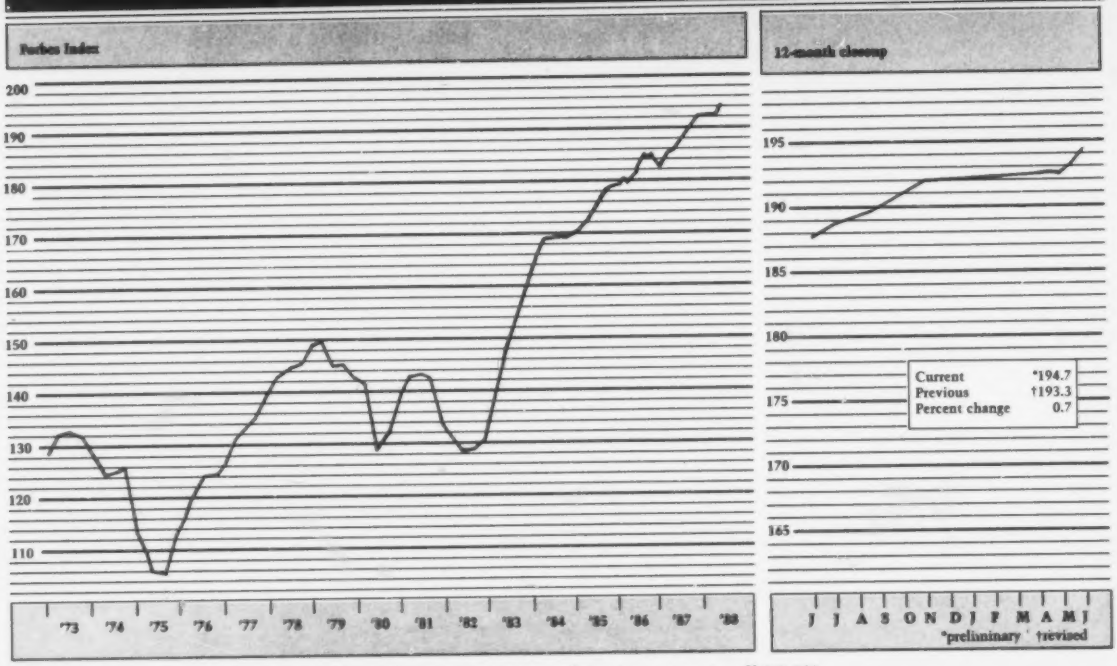
The Forbes Index



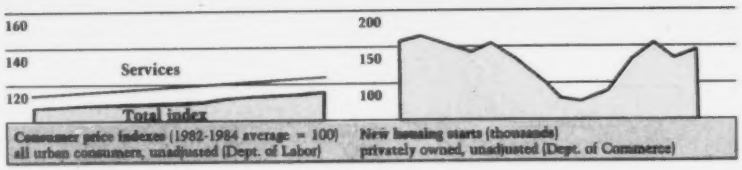
No recession here. In June the Forbes Index gained 0.7% after a slight dip in May, its first decline in 16 months. Fears of an economic slowdown were premature. The rebound was augmented by an 8.8% surge in manufacturers' new orders. A mild recovery in the housing market also helped. Housing starts rose 6.8% last month. Compared with June 1987, however, the 12-month total of housing starts is off 10.1%.

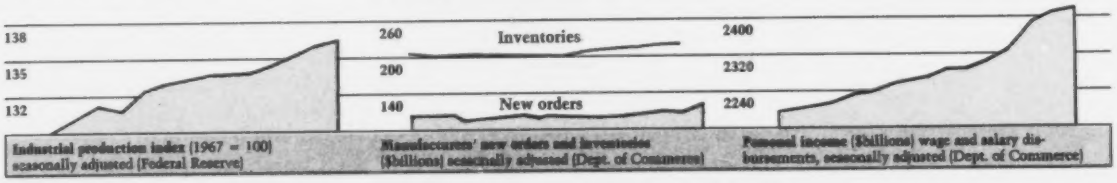
Personal income posted a healthy 0.7% gain in June, to an annual level of $2.4 trillion, putting it 3% higher than it was at the beginning of the year. The Consumer Price Index rose 2.3% during the first six months of 1988. This is still less than the 2.7% increase during the first half of 1987. For now, inflation appears to be under control.

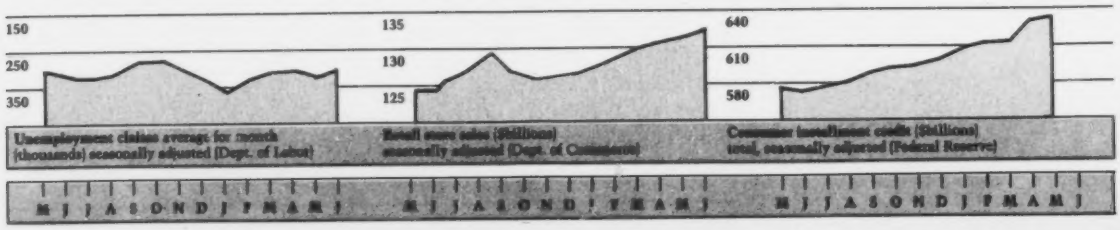
The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.






150
250
350
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
135
130
125
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
640
610
580
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
M J J A S O N D J F M A M J
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M J J A S O N D J F M A M J

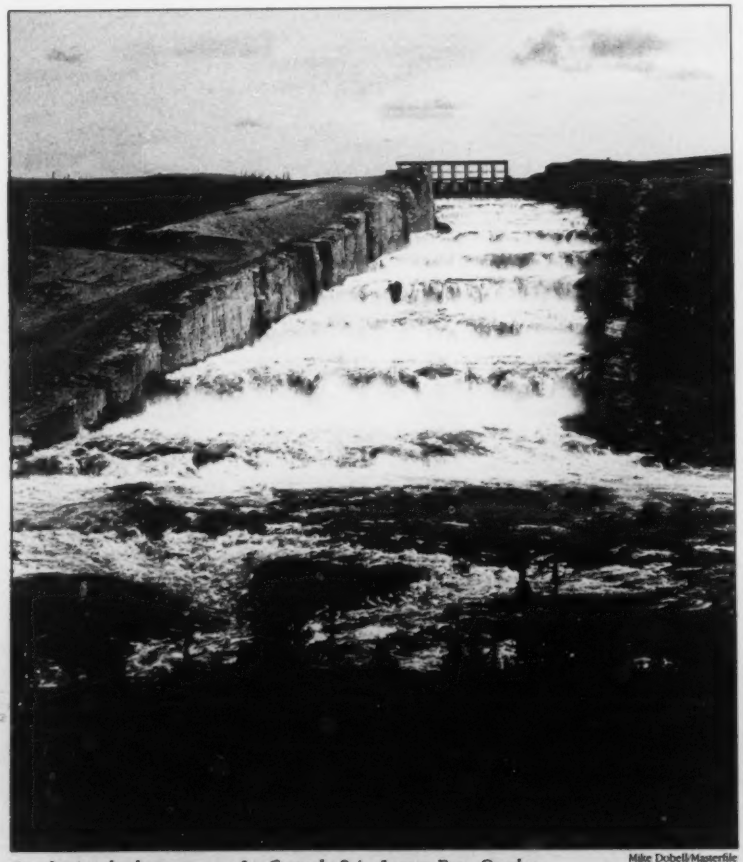
Canada's increasing exportation of hydroelectric power to the U.S. is a case where both buyer and seller have much to gain and almost nothing to lose.

Power play

By James Cook

FOR NEARLY A CENTURY NOW, electric power has been moving back and forth across the U.S.-Canadian border as easily as it moves from state to state or from utility to utility within the U.S. Thus the U.S. gets low-cost power that would not otherwise be available.

It's an even better deal for Canada. The U.S. has bought more power than it sold, providing Canada with a favorable 1987 balance of $1.2 billion. The trade is likely to swing even further in Canada's favor in the future. By 1995 the U.S. is likely to buy 20% more Canadian power, the U.S. Energy Information Administration predicts.



Mike Dobell/Masterfile

Producing hydropower at La Grande 2 in James Bay, Quebec
Good for them, good for us.

For the Canadians, a U.S. market for their power has enabled them to develop some of their resources—the $12 billion James Bay hydroelectric project, for example—years earlier than they would otherwise, and to devote the proceeds to reducing their already low domestic power costs.

For the U.S. utilities, buying is not only cheaper than generating it themselves but also saves them the financial, environmental and regulatory problems involved in building new U.S. power plants. For example, Canadian power plants are not required to use expensive scrubbers to control pollution. Thus the New York Power Authority's new contract with Hydro-Quebec will, over 21 years, save New Yorkers $600 million over what they would have paid using oil. Central Maine Power's contract will save $465 million over 29 years; the New England Power Pool's contract, $1.5 billion over 10 years.

It's not wholly free trade. Canada shrewdly exacts its pound of flesh. Canadian producers—provincial governments mainly—can export only their power surpluses, and they have to price them more or less in line with the buyer's least-cost alternative.

Canadian power is lower cost in part because it is subsidized, either directly, through low-cost financing or tax breaks, or indirectly, through environmental exemptions. But even here the Canadians exact top dollar: Canada's National Energy Board requires producers to recover any subsidies in their export rates. Still, even after recovering these subsidies, Canadian power is cheaper than almost any new U.S.-generated power, mainly because it's low-cost hydroelectric.

Overall, imports supply less than 2% of U.S. electric power needs, but in the border states the proportion is much higher. Northern States Power imports about 7% of its power from Manitoba and distributes it to parts of Minnesota, Wisconsin, the Dakotas and northern Michigan. New York State gets 11% of its needs from Ontario and Quebec. New England now imports 6% from Quebec, but that proportion could increase dramatically.

"Canadian hydropower," according to a study Thomas Connell of Carnegie-Mellon University did for the Edison Electric Institute, "is capable of supplying nearly all additional capaci-

ty requirements in some regions of the U.S. for the foreseeable future."

And there's no question that Canada is avid to export to the American market. Quebec already has major developments under way on the Manicouagan and La Grande rivers aimed in part at the U.S. market, while Manitoba and British Columbia have ambitions of developing sites on the Nelson and Peace rivers. Yet barely half of Canada's 120,000-megawatt hydropower potential has been developed *(see chart)*. More audaciously, New Brunswick is prepared to give part ownership to U.S. utilities in thermal or nuclear plants that it would build, free of U.S. environmental or other regulations, to serve the U.S. market.

Not everyone in the U.S. is happy with this situation. Coal producers most definitely are not. In a sense, every kilowatt-hour of power exported to the U.S. is a kilowatt-hour of power that could theoretically be produced by coal-fired generators in the U.S. The National Coal Association estimates that Canadian power displaced 6.3 million tons of U.S. coal in 1986 and, the way things are going, could displace 24 million tons a year by 1996.

Reflecting his state's interest in coal development, Representative Nick J. Rahall II (D–W. Va.) introduced legislation last fall that would prohibit the importation of Canadian power not produced in accordance with U.S. environmental laws, while Minnesota's Gerry Sikorski and California's Henry Waxman want to impose the same millage charge on Canadian hydro imports as their acid rain legislation would have EPA impose on U.S.-generated energy.

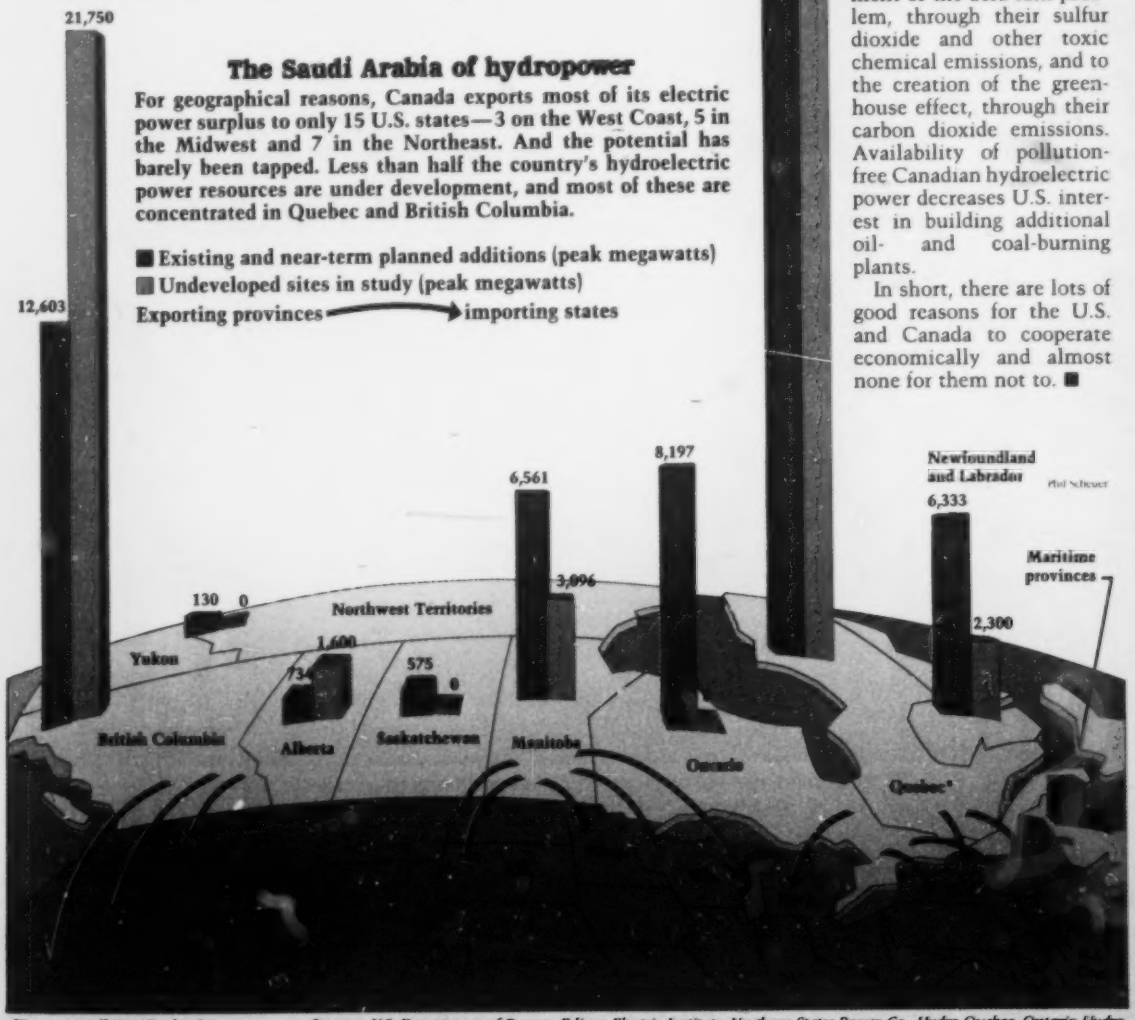
"It appears," Representative Rahall announced in opening hearings on the issue in March, "entire regions are trading their former dependence on OPEC oil for Canadian power exports." But that, of course, is political hyperbole, intended to disguise special-interest pleading. Canada is not OPEC.

It is true that hydroelectric development threatens some of Canada's remaining wildlife areas, but there is an environmental gain for Canada in shipping hydropower across the border. U.S. fossil fuel plants have contributed to the development of the acid rain problem, through their sulfur dioxide and other toxic chemical emissions, and to the creation of the greenhouse effect, through their carbon dioxide emissions. Availability of pollution-free Canadian hydroelectric power decreases U.S. interest in building additional oil- and coal-burning plants.

In short, there are lots of good reasons for the U.S. and Canada to cooperate economically and almost none for them not to. ■

The Saudi Arabia of hydropower

For geographical reasons, Canada exports most of its electric power surplus to only 15 U.S. states—3 on the West Coast, 5 in the Midwest and 7 in the Northeast. And the potential has barely been tapped. Less than half the country's hydroelectric power resources are under development, and most of these are concentrated in Quebec and British Columbia.

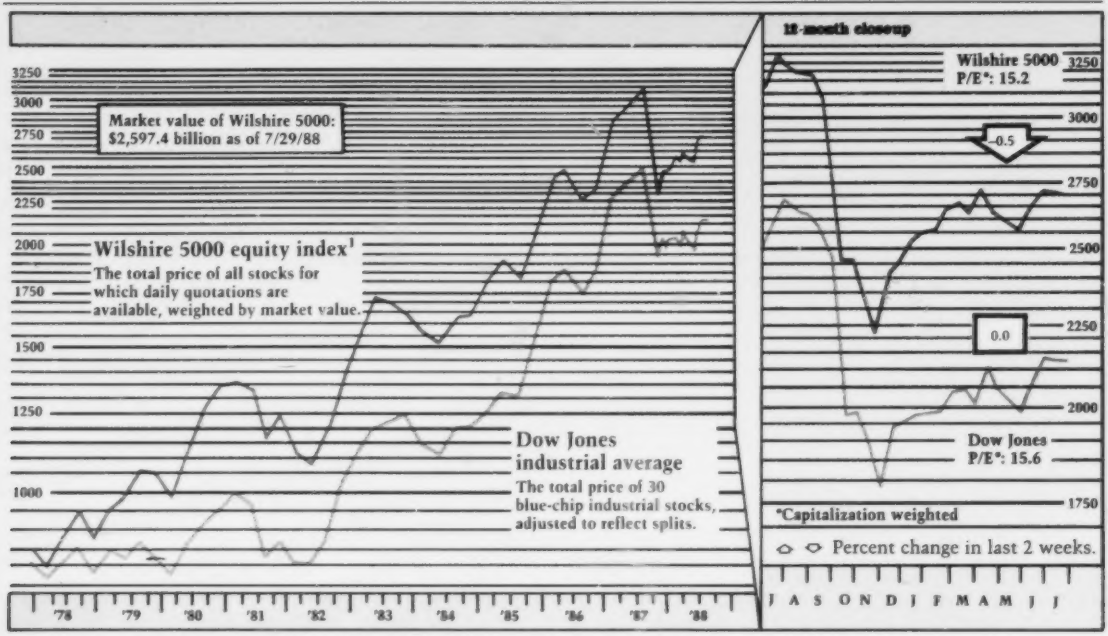


*Exports to all New England.

Sources: U.S. Department of Energy; Edison Electric Institute; Northern States Power Co.; Hydro-Quebec; Ontario Hydro; British Columbia Hydro.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Bear market rally? A 75-point two-day upswing enabled the Dow to close unchanged for the last two weeks of July. But this has all the makings of a typical bear market rally. For starters, the action was limited to blue-chip stocks. During the last five trading days the Dow gained 3.3% while the Amex and Nasdaq were flat. Last week on the Amex more stocks made new 52-week lows than highs (30 to 24). When the Dow rallied 46 points on July 29 only 192 million shares were traded on the NYSE. Of this volume, over 10% was in dividend capture plays.

On the bright side, corporate America continues to report healthy earnings. The Dow multiple of 10.8 is only slightly higher than its five-year low of 10.3 reached in December 1984. That makes the earnings yield (the inverse of the P/E) on the Dow 9.3%. In August of 1987 the earnings yield was only 4.5%. Although earnings a year ago were distorted downward by some one-time writeoffs, the market is certainly a lot less expensive.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–0.6	–0.1	–0.1	–0.2	–0.9	–1.9
in last 52 weeks	–13.8	–14.5	–17.2	–14.2	–14.5	–10.9

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 23	under 9	over 4.7%	none	high	low	over $35	under $4
in last 4 weeks	–1.3	1.6	1.5	1.4	–1.5	0.9	1.2	1.8	0.5	0.1	–1.1	1.1
in last 52 weeks	–9.6	16.2	18.2	4.3	–5.7	–0.1	0.9	20.5	16.6	2.5	–5.3	10.2

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

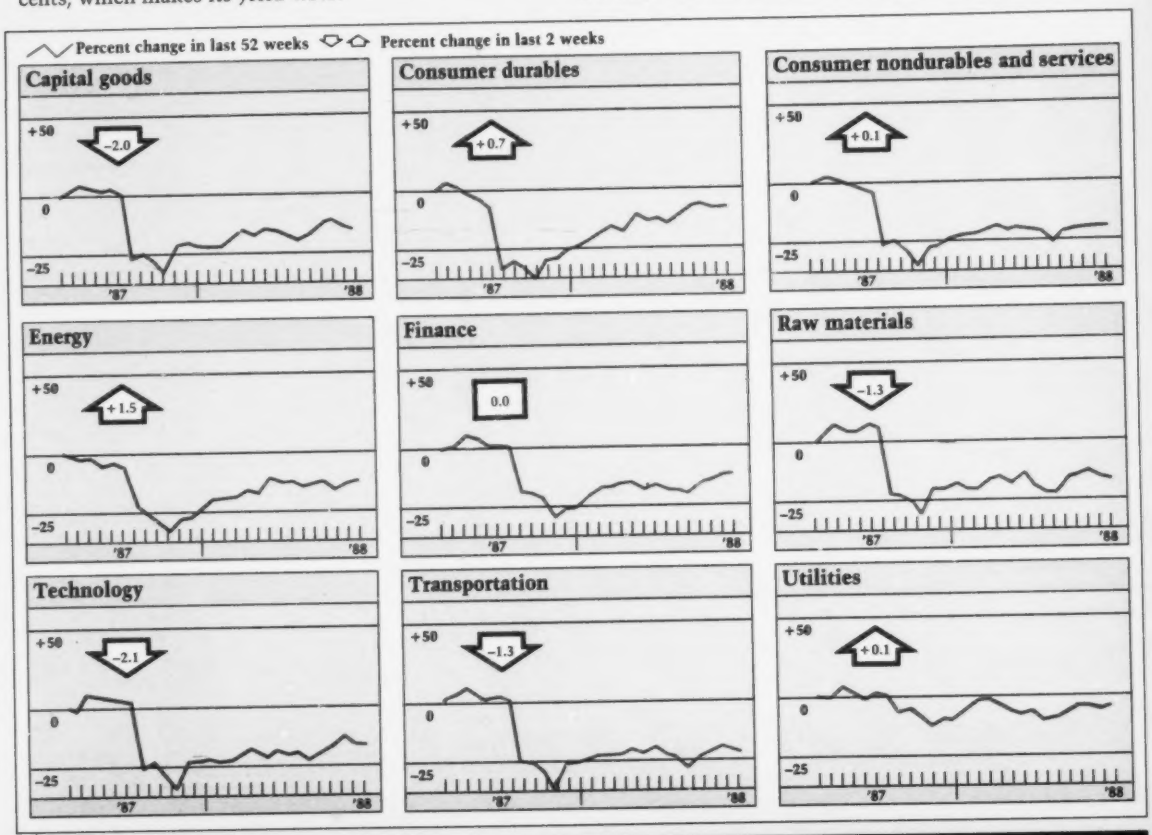
Note: All data for periods ending 7/29/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Energy stocks respond to favorable earnings reports. The energy sector posted the strongest two-week performance. The best stock in the group was Phillips Petroleum, up 10%, to 17⅝. The company reported earnings of $1.27 for the six months ended June 30, versus a deficit in 1987, and also increased its quarterly dividend from 15 cents to 18 cents, which makes its yield 4.1%.

In contrast, technology stocks have been hurt by disappointing earnings reports. It is painfully reminiscent of last summer, when the retail and apparel stocks dropped before the rest of the market collapsed. In the last two weeks Seagate dropped $6.50, to 11⅛, on lower than expected earnings, while Tandem, Data General, Lotus Development and Autodesk all declined more than 10%.



What the Analysts Think

Finance is weak. Analysts again lowered their 1988 earnings estimates for the finance sector. With its estimated 1988 P/E of 8.5, finance has the lowest sector multiple. But there may be some positive earnings surprises. For example, following a second-quarter rebound, analysts raised their 1988 estimate for First Boston by 6%.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.77	14.0
1988 estimates	3.55	10.9
1989 estimates	3.93	9.8

Rank based on change in estimate	Sector	Estimated 1988 EPS	Estimated 1988 P/E	% change in 1988 estimate in 2 weeks	% change in 1988 estimate in 4 weeks
1	Raw materials	$3.07	10.3	1.26%	1.93%
2	Capital goods	2.62	15.3	1.13	1.39
3	Consumer durables	4.45	12.6	0.80	0.96
4	Utilities	2.40	10.0	0.14	0.20
5	Energy	3.07	12.6	-0.02	-0.17
6	Technology	2.88	12.1	-0.06	-0.14
7	Transportation	2.43	11.2	-0.36	-0.69
8	Consumer nondurables	2.47	13.3	-0.53	-0.76
9	Finance	3.36	8.5	-0.89	-1.89

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 7/29/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.